

AGENCY BANKING PRACTICES AND NON-FINANCIAL PERFORMANCE OF COMMERCIAL BANKS IN RWANDA

Rukundo Gilbert K.*, Dr. Hakizimana Emmanuel

University of Lay Adventists of Kigali, PO Box: 6392 Kigali Rwanda

*Corresponding Author: rukundogilb48@gmail.com

Abstract

In spite of all the efforts put in place by the banking industry, the core contest has always been to increase the satisfaction of a customer. Currently, commercial banks' customers are at an exposure of more options in choosing the banks than the past. Every bank is trying to retain and maintain their valuable customers at any cost, for sustainability. Banks are adopting different software and technological aspects to make their customers satisfied which costs banks big sums of their revenues on the other hand. This therefore prompted the researcher to institute the effect how non-financial performance of commercial banks in Rwanda is affected by the agency banking. Kenya Commercial Bank (KCB) Rwanda was used as a reference. The chief purpose of this study was to analyze the effect of agency banking on the non-financial performance of commercial banks in Rwanda. The study adopted both descriptive and correlative research designs. Questionnaires were addressed to 43 respondents selected from among the KCB staffs and an interview was held with 5 respondents from the bank's middle managerial level. Data was analyzed using SPSS for descriptive statistics to test agency banking effectiveness and the relationship among variables of the study. Multiple regression analysis was used to test relationship between the research variables. Findings of the study captured that 68.2% changes in financial performance of commercial banks in Rwanda come as a result of agency banking. Besides, the ANOVA p-value was found to be 0.001 which is less than alpha (5%), an indication that there is strong and positive correlation between agency banking and non-financial performance in commercial banks in Rwanda and in particular KCB Rwanda. These commercial banks were recommended thus: in order to have safe use of agency banking, the administration of the banks should look into safety measures of agency transactions and commercial banking stakeholders are recommended to sensitize the general public on agency banking components. Finally, this bank is recommended to massively extend its agency banking services to other secondary cities of Rwanda.

Key words: Agency banking, Non-financial performance, Commercial banks, Rwanda

Introduction

History of the agency banking can be traced back to 1999 when Brazil became the first country to subscribe to agency banking. By 2000, agency banks had spread to 1,600 municipalities across Brazil. Therefore, the beginning of the 21st Century marked a crucial turning point for agency banking, as the idea spread in other countries. A decade later, 170,000 agents across all Brazil's 5500 municipalities had already started offering services with 12 million active accounts. With an advanced financial sector, the United States is competitive business environment due to the presence of well-established US-based banks that operate globally. Therefore, foreign banks used agency banks to penetrate the US market (Adem, 2015).

The UK has one of the highest tariffs of adopting agency banking in the world: around one-third of customers use mobile banking applications and mobile banking is now available to customers of all of the major banks. While there are differences in the sophistication and functionality of the agency banking applications offered by the established banks in the UK, customers are typically able to check their balance, set up personalized alerts, send payments to another account using a mobile number, and locate

their nearest branch or ATM. In its end-to-end digital transformation, Lloyds Bank, in the UK, focused on ten customer journeys, using agile delivery, deploying cross-functional customer journeys, and empowering product owners with responsibility. Between 2014 and 2016, the number of customers using Lloyds' mobile channel grew from five million to eight million (Honohan, 2016).

Phanindra, al (2015) asserted that there have been a number of innovations Russian banks in the agency banking market in recent years with respect to products (such as the introduction of reward accounts), service (as part of the wider digitalization of agency banking); and new business models (for example by firms with only an online presence). When assessed individually, there is a considerable degree of dissimilarity in the rapid growth of each modernization and even the level to which each innovation has impacted the market. In contrast, other innovations, such as the use of account aggregation services, big data, and digital wallets, are in the early stages of development, particularly when considering their application to the wider agency banking market.

In Africa, Kenya is the leading country in

providing Agency Banking services, over 13 out of 44 Kenyan commercial banks have embraced the agency-banking model. Since 2005, when the first agency bank was introduced in South Africa, banks in African countries are keen on reengineering their operations to accommodate agency banking. Kenya and South Africa have been exceptionally keen on embracing and integrating agency banking on their respective banking systems. In brief, agency banking is branchless banking based on ICT allowing financial institutions to tender financial services outside the conventional bank premises (Shindran, 2017).

In Rwanda, agency banking was launched to address some of the shortcomings in access to financial services. KCB Bank Rwanda was first to deploy agency banking in 2012, followed by Equity Bank, both drawing on their experiences from deployment of the agency-banking channel in Kenya where they continue to experience phenomenal success. Out of 11 Commercial Banks in Rwanda, 7 Banks have embarked in agency banking and they include BK, Equity Bank, KCB, Cogebank, UOB, I&M and KCB (BNR, 2016).

In order Agency banking is the pedestal of inclusive finance by bringing financial

services closer to unbanked people by offering them capabilities to move from cash to electronic money and vice versa. This function is effective in an environment where hard cash is in uninterrupted circulation (Phanindra, 2015).

However, National Bank of Rwanda (BNR) performed quarterly stress tests in 2016 mainly to test resilience of banks when faced with liquidity shocks and it realized that banks depend on low number of customers. The test showed that, the first banks would become illiquid when 27% of deposits are withdrawn and 14 out of 17 banks met minimum liquidity requirements when 20 largest depositors pulled out 50% of their deposits. From the results, it appeared that banks were not liquid enough for them to require acute and very adverse shocks for banks to be liquid (BNR, 2016).

Therefore, the researcher desired to carry out a study on the agency banking and non-financial performance of commercial banks in Rwanda with reference to KCB Rwanda.

Specific objectives

- i) To assess the agency banking practices undertaken by KCB Rwanda;
- ii) To evaluate the non-financial performance in KCB Rwanda;

iii) To find out the relationship between agency banking practices and non-financial performance of KCB Rwanda.

2. Methods

This study exclusively took up KCB Rwanda as a case on getting to the problem at hand as regards to the effect agency banking has on the non-financial performance of commercial banks in Rwanda. In order to have a successful study in as far as achieving the set objectives is concerned, two research designs were embraced. The study applied both descriptive and correlative research designs which included descriptive statistics.

By gathering and analyzing the descriptive statistics, the researcher ably assessed the significance of the agency banking practices undertaken by KCB Rwanda, evaluated the bank's non-financial performance; and established whether there has been a positive impact on non-financial performance in the bank. On the other hand, correlative design was used to find out the relationship between agency banking practices and non-financial performance of KCB Rwanda with the help regression analysis such as ANOVA.

The population of interest in this research constituted of KCB Rwanda staffs working at the headquarters located in Nyarugenge

District, Kigali City. In line with this, the target population was forty-eight (48) employees working in Finance, Consumer banking (agency banking, distribution channels, agency banking and marketing units), Commercial banking-SME and Credit Risk department. The researcher therefore preferred using universal sampling technique because the population size (48), was less enough to be included altogether.

To commendably carryout this study both primary and secondary data were applied. Primary data were collected from three main instruments which include self-administered questionnaire, structured interview and survey. A population cluster of forty-three (43) respondents were given questionnaires while five (5) respondents that included KCB Rwanda staff in the middle level management were involved in an interview to support the responses from other staff.

In designing questionnaires addressed to the KCB Rwanda staff in the specified departments mentioned in previous sub section, the researcher used Likert scale to measure the effectiveness of agency banking practices and the effect of agency banking has on the non-financial performance of commercial banks in Rwanda in particular, KCB Rwanda.

After data collection, the researcher used the Statistical Package for Social Sciences (SPSS) version 22.0 in coming up with the statistical analysis for the study. In this study, the researcher collected both quantitative and qualitative data.

3. Results and Discussion

This section focuses on the discoveries, investigation, and discussion on of the research data that was collected. Out of 48 of the targeted population, 43 (89.6%) filled the study questionnaires while the other 5 (10.4%), heads of department were involved in an interview as a way of approving the outcomes from the rest of bank's employees.

3.1 Assessing the agency banking practices undertaken by KCB Rwanda.

This section presents the KCB Rwanda staff's perceptions towards agency banking

practices.

The practices analyzed in this section include: Cash withdrawal, Cash deposits and Bills payment. The results collected from the respondents on the mentioned variables are presented in this section.

i) Responses on the cash withdrawals

This section describes the study population level of appreciation on cash withdraws activities in selected banks and the results are clearly presented in the table whereby they are in form of mean and standard deviations whereas discussions follow below the tables.

Table 1: Views of respondents on cash withdrawal

Statement	Mean	St. Deviation
Withdrawal from agents reduces infrastructure costs of bank	4.08	0.451
Withdraw from agents reduced computational errors	4.12	0.362
Withdraw from agents helps to watch over safety measures	3.34	0.481
It offers a paperless mode of transaction within in the bank	4.45	0.334
Average mean	3.99	0.407

Source: Primary data (2020)

As established in table 1, the results in terms of mean indicate bank employees opined that

withdrawal from agents reduces infrastructure costs of bank by mean of 4.08

whereas the standard deviation was 0.451. The same respondents identified that withdraw from agents reduced computational errors at the mean of 4.12 while the standard deviation was 0.362. The above findings are in line with Arisht, Muturi (2015), the option of agency cash withdrawals doesn't favor the banks' cash management. It creates an additional cost-free possibility of obtaining cash, as no fees are charged for agency cash withdrawals in most cases.

In regards to the fact on whether the withdraw from agents helps to watch over safety measures, this was selected at the mean of 3.34 while the standard deviation was at 0.481. Findings in the table revealed that respondents from the selected banks reacted to the question on whether cash withdraw from agents offers a paperless mode of transaction within in the bank and this was agreed in similarity with mean of 4.45 while the standard deviation was 0.334.

In general, respondents from KCB Bank Rwanda wqw3agreed at the mean as 3.99 while standard deviation was 0.407. Therefore, the general findings indicated high mean which explains that there is slight evidence of the existence of the fact. As regards to the standard deviations, the all are close to 0 which is an indication that the responses also have similarity. Hence, the results revealed above are no surprise in comparison this senior banker's revelation. Findings are supported by Gemedu (2013), from the consumers' perspective, agency withdrawal facilities present an additional withdrawal option which is generally free of charge.

ii) Responses on the cash deposits

This section designates the study population level of appreciation on cash deposits activities in KCB and the results are presented in the table 2 of the study.

Table 2: Views of respondents on cash deposits

Statement	Mean	St. Deviation
With cash deposits, transaction data is stored in organized database	4.35	0.324

Deposits from agents provides an advantage of saving time	4.31	0.322
Deposits from agents provides an advantage of being reliable	4.65	0.317
These banks periodically revalue their deposits from agents	4.43	0.321
Average mean	4.44	0.323

Source: Primary data (2020)

As indicated in the table 2, the respondents agreed with correspondence of views as regards to the KCB’s agency banking in particular cash deposits that it enables the transaction data is stored in organized database. When asked if deposits from agents provides an advantage of saving time, the respondents from the selected banks agreed the statement with resemblance of views as presented with a mean of 4.31 while standard deviation was at 0.322. In this case the employees in selected commercial banks agreed that cash deposits from agents provides an advantage of saving time.

Besides, the respondents the selected banks have corresponding thoughts that cash deposits from agents provide an advantage of being reliable. This was agreed with the weak mean of 4.65 and standard deviation of 0.317. This means that cash deposits from agents provides an advantage of being reliable. Results are in line with Honohan (2016), agency banking also allow customers to enjoy longer opening hours since this business operates for longer hours than banks and reduces longer queues while in need of

depositing cash

As regards to whether these commercial banks periodically revalue their deposits from agents, respondents in a similar respondents selected a mean of 4.43 by the selected banks while concerning standard deviation, they agreed on 0.321. Based on these findings, commercial banks still do periodically revalue their deposits from agents.

Averagely, all the activities and statements for a variable cash deposits scored an overall mean in the selected banks in Rwanda of 4.44 while standard deviations include 0.323. This is an indicator that cash deposits are positively affecting the performance of commercial banks in Rwanda. The findings of Jawadekar (2016) are in same contexts, basic functionality has been compromised by legacy “outsourcing” or other banking regulations that restrict cash-handling outside of branches. A common obstacle is regulation that deems cash-in services as “deposit”

taking, an activity that is limited to banks.

level of appreciation on bill payments activities in selected banks and the results are in form of mean and standard deviation.

iii) Responses on the bill payments

This section designates the study population

Table 3: Views of respondents on bill payments

Statement	Mean	St. Deviation
They enabled the bank in improving bank service to be accessible	4.24	0.337
It has improved its profitability because of bill payment	4.09	0.421
Bill payments from agents has assisted banks to increase the quality of services	4.01	0.472
With bill payments, the banks stabilize the security of customer	4.31	0.369
Average mean	4.16	0.399

Source: Primary data (2020)

As presented in the table 3, the respondents in KCB Rwanda agreed with resemblance of views that bill payments enabled their bank in improving bank service to be accessible and the selected mean included 4.24 while standard deviation was 0.337. In addition, the respondents were tasked to share their views on whether banks have improved its profitability whereby the mean of for the selected banks was 4.09 while standard deviation was 0.421 to who agreed the statement though parity of perceptions, as presented. In this case employees revealed that their commercial banks approved agency banking as a way of having better performance in general. Results are in line with Honohan (2016), agency banking also allow customers to enjoy longer opening hours since this business operates for longer

hours than banks and reduces longer queues while in need of depositing cash and billing of the payments.

Respondents were again asked whether bill payments from agents have assisted banks to increase the quality of services and they responded in correspondence in terms of mean as 4.01 while standard deviation was 0.472 by the selected banks. Besides, also respondents agreed in similarity when asked whether with bill payments, banks can stabilize the security of customer and by mean, they agreed with 4.31 by KCB Rwanda whereas the standard deviation was found to be 0.369. This means that the respondents disagreed that bills payment are well established in the selected commercial banks.

In average, all variables under bills payments scored an average mean in selected

banks of 4.16 whereas standard deviation was 0.399. This is an indicator that commercial banks have well established agency banking systems as regards to the bill payment services. As illustrated by Kioko (2018) during a liquidity crisis, a good number commercial banks depend on the agents since they all over established across the country in different businesses such as hotels despite whatever rate the transaction takes, a bank will earn a cent. Consequentially, this leads to a rise in their earnings.

3.2 Evaluating the non-financial performance in KCB Rwanda.

This section presents the workers perceptions

towards performance of commercial banks. The variables analyzed in this section include: Customer Base, Timely Services, Service Accessibility, Quality Services and Customer Security. The results collected from the respondents on the mentioned variables are presented in this section:

i) Responses on the non-financial performance of KCB

This section designates the study population level of appreciation on customer base activities in selected banks and the results are presented in the table whereby they are in form of mean and standard deviation whereas discussions follow below the tables.

Table 4: Views of respondents on non-financial performance

Statement	Mean	St. Deviation
The bank is able to maximize its customers due to its effective agency banking.	4.48	0.342
The bank engages in various initiatives to focus on its timely services	4.41	0.371
Service accessibility by the commercial banks affects the bank sustainability	4.36	0.383
Customers' complaints are studied to identify patterns and prevent the same problems from recurring	4.06	0.363
Average mean	4.25	0.375

Source: Primary data (2020)

As indicated in the table 4, the respondents from the selected banks agreed with similarity of views and knowledge that their banks are able to maximize their customers due to the effective agency banking. Results

which were presented indicated mean of 4.48 and the standard deviation of 0.342 for the selected banks' employees. This means that respondents in both selected commercial banks agreed that customers increase is

achieved due to its effective agency banking.

The respondents in selected banks agreed the statement asked whether these banks engage in various initiatives to focus on their timely services and it was perceived by the mean of 4.41 and standard deviation of 0.371. It means that in both selected commercial banks engages in various initiatives to focus on its timely services.

Concerning the role of service accessibility by the commercial banks towards bank sustainability, respondents from selected banks agreed at mean of 4.36 while the standard deviation was at 0.383. In this case sustainability of commercial banks in Rwanda is affected by service accessibility

which is as a result of agency banking.

More so, study respondents from the selected banks further indicated that customers' complaints are studied to identify patterns and prevent the same problems from recurring as presented with a mean 4.06 and standard deviation 0.363. As pointed out by Diamond and Rajan (2011) in order to survive in the new economic environment, institutions have to research and develop new products and services that would mitigate financial risks and improve profitable

3.3 Relationship between agency banking and non-financial performance of commercial banks in Rwanda.

Table 5: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.867 ^a	.682	.513	.19631

a. Predictors: (Constant), Cash withdrawals, Cash deposits, Bills payment

Based on the findings in table 5, the value of adjusted R squared which was the determinant of coefficient was found to be 0.682 a signal that there was deviance of 68.2% on agency banking of commercial banks in Rwanda due to changes in cash

withdrawals, cash deposits, bills payment. From the findings presented, it was captured that 68.2% changes in financial performance of commercial banks in Rwanda come as a result of agency banking.

Table 6: Analysis of Variance (ANOVA)

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	1.132	4	2.323	9.230	.001 ^b
	Residual	9.221	16	.523		
	Total	10.353	20			

a. Dependent Variable: Non-financial performance

b. Predictors: (Constant), Cash withdrawals, Cash deposits, Bills payment

As indicated in the table 6, the F-test value was 9.230 with a significance value of 0.001 at 5% level of significance. Thus, since the p-value obtained was less than 0.05, the F-test was significant hence the conclusion that the

regression model was worthy. In addition, this therefore establishes that that agency banking significantly affects non-financial performance in commercial services in Rwanda and in particular KCB Rwanda.

Table 7: Summary of Coefficient Results

Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig.
	B	Std. Error	Beta		
1 (Constant)	.827	8.113		.087	.001
Cash withdrawal	1.235	.270	.431	.861	.000
Cash deposits	1.177	.474	.532	.495	.003
Bill payments	1.219	.357	.491	1.309	.000

a. Dependent Variable: Non-financial performance

The study results presented in table 7 provides a picture of the results obtained after a regression analysis for the effect of agency banking in terms of cash withdrawals, cash deposits and bills payment on non-financial performance in Rwanda. The results indicate

that cash withdrawals, cash deposits and bills payment have positive and significant effect on non-financial performance of KCB Rwanda and findings are as follows: ($\beta_1= 0.431$, $t=0.861$, $p = 0.000 < 0.05$, $\beta_2= 0.532$, $t= 0.495$, $p = 0.003 < 0.05$, $\beta_3= 0.491$ $t= 1.309$,

$p=0.000<0.05$). This indicates that 1 per cent increase in cash withdrawals, cash deposits and bills payment causes to 0.431, 0.532, 0.491 increase on non-financial performance of commercial banks in Rwanda respectively. Based on the findings above the regression model equation is denoted as follows:

No-Financial Performance = $0.827 + 0.431$ Cash withdraw + 0.532 Cash deposits + 0.491 Bill payments.

4. Conclusion and recommendation

This study's interest was to fathom the effect of agency banking on Rwanda's commercial banks non-financial performance, with a reference to KCB Rwanda. Grounded on the responses from study population sample of 48 and review of other important reports, all study objectives were achieved as signposted in the previous section.

Conclusion

The study captured that 68.2% changes in financial performance of commercial banks in Rwanda come as a result of agency banking. Besides, the ANOVA p-value was found to be 0.001 which is less than alpha (5%), an indication that there is strong and positive correlation between agency banking and non-financial performance in

commercial banks in Rwanda and in particular KCB Rwanda.

Recommendations

In ensuring safety, the administration of the banks should observe into the fact of using agency banking transactions to watch over safety measures and risk management and enforce to outflow of future dangers that could affect the bank's performance and the clients at large.

For public alertness, commercial banking backers such as the ministry of ICT and MINECOFIN together with other responsible backers in the government are suggested to sensitize the general public on agency banking components. This will enable the bank to increase the customer base.

In order for the bank to raise its customer base, the bank is recommended to massively extend its agency banking services to other secondary cities of Rwanda. This would make an awareness to more people since these cities are located near to the rural areas where there are masses.

References

Adem, S. J. (2015).). *Technology in The Agency Banking Sector: A Comparative Study of the to Commercial Banks*, 1st

- edition, New Delhi: Cyclone
- Arisht, K and Muturi, L. (2015). Agency Banking effectiveness. *Managerial Finance*, 3-123.
- BNR (2016), National Bank of Rwanda annual report 2016-2017. Accessed on 19th February,2020 form <https://www.bnr.rw/news-publications/publications/annual-reports/>
- Diamond, D.W., R.G. Rajan,. (2011). Agency banking Vs Liquidity Risk, Liquidity Creation, New York: Hard CoverPublishers.
- Gemedu, L. (2013). Eco-control: The influence of management control systems on environmental and economic performance. . *Accounting, Organizations and Society*, 35, 63-80.
- Honohan, T. (2016). *Contemporary Enterprise-Wide Agency Banking frameworks: A comparative analysis in a strategic perspective* . Denmark: CHB Press.
- Jawadekar, B. (2016). *Analyzing Banking Risk (A Framework for Assessing Corporate Governance and Agency Banking..* Washington DC: Drive More Publishers
- Kioko, H. (2018). *Managing guman resources, fith edition*. New Jersey: John wiley Publications
- Phanindra, K, Hinson, D and Kowalski, L. (2015).). *Roles and Responsibilities for Contingency Planning*. London: UCL Press.
- Shindran, F. (2004). Performance measurement and organizational effectiveness: Bridging the gap. *Managerial Finance*, 30, 93-123